■ HOW TO CREATE LEADERS • BOEING'S FLIGHT PLAN [illegible] S ■

SEPTEMBER 28, 1987

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FORTUNE

ARE STOCKS TOO HIGH?

New Ways of Valuing Shares Give Some Surprising Answers

George Soros, who may be Wall Street's most successful investor, thinks the volatile market could climb a lot more.

INTRODUCING: THE FORTUNE 500 CEO POLL

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SEPTEMBER 28, 1987 VOL. 116, NO. 7

FORTUNE

"Just because the market is overvalued does not mean it is not sustainable."

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"It was just too easy. I buy stock—and boom."

PAGE 44

"What we're not going to do is jeopardize the future of the company to pay off short-term investors."

PAGE 64

"You have to burn your totems. It's not disrespectful."

PAGE 92

"We see the industry downturn as a golden opportunity to start our own company."

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"Allowing all aircraft to fly whenever and wherever they like is like trying to cram a size seven foot into a size five shoe."

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Cover: Investor George Soros of the Quantum Fund was photographed in his New York City office by Andy Freeberg.

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LETTERS

Concerning your recent article on America's money society, one might draw your attention to the curious fact that current English—or maybe American—usage refers to a person who *owns* a certain amount of money as one who is *worth* that amount. A culture that no longer distinguishes between what a man has and what he is, is perhaps intrinsically materialistic in its outlook.

BENJAMIN J. EGLI
Muttenz, Switzerland

A Puff of Smoke

Re "Don't Bet Against Cigarette Makers" (August 17): Your article extols the ability of the tobacco companies to project a very profitable future. However, you fail to mention that tobacco is one of the more unusual products in that it tends to addict its consumers. Anyone else selling such a product today would be known as a drug pusher.

CLIVE S. PEARCE
Haworth, New Jersey

Correction

In "Do We Live As Well As We Used To?" (September 14), FORTUNE *ran a table showing what work buys. The last three lines of that table contained typographical errors. Buying a chicken took 60% less work in 1986 than in 1956. The cost of dry cleaning a dress came to 39 minutes of labor in 1956, vs. 35 minutes last year. To pay for a haircut, a man had to work 15% less than 30 years before.*

Address letters to FORTUNE, Time & Life Building, Rockefeller Center, New York, N.Y. 10020. Letters may be edited for purposes of clarity or space.

INVESTOR'S SNAPSHOTS

EXPLANATORY NOTES

SALES in the Investor's Snapshots elsewhere in the magazine exclude excise taxes. Instead of sales, assets are shown for commercial banking companies, diversified financial companies, life insurance companies, and utilities, and operating revenues for transportation companies.

NET PROFIT includes any extraordinary items. Where applicable, sales and net profit for past quarters are restated to reflect mergers, acquisitions, or divestitures.

RETURN ON COMMON STOCKHOLDERS' EQUITY is calculated for the latest four quarters after subtracting dividends paid on preferred stock from net income. The five-year average is based on the last five full fiscal years.

PRICE/EARNINGS MULTIPLE is based on earnings per share for the latest four quarters.

TOTAL RETURN TO INVESTORS includes stock price changes and assumes dividends are reinvested on the date paid.

HOW THE 12 TOP RAIDERS RATE

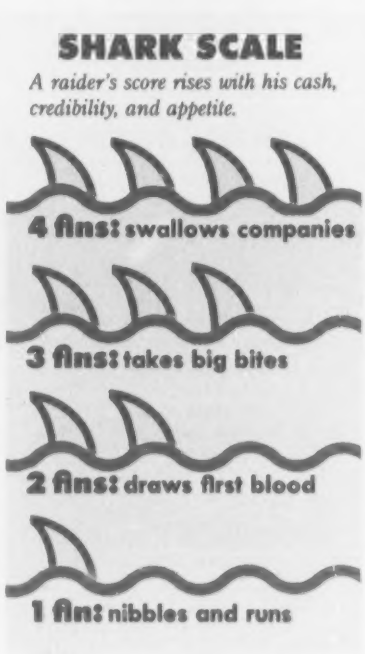
Soaring stocks and a public backlash have revolutionized takeovers. Old players are fading, new ones rising. Here's a surprising scorecard from Wall Street. ■ *by Thomas Moore*

THERE SEEMS TO BE no stopping them. The financial sharks whose attacks have provoked a major restructuring of U.S. industry are ripping into more drifting corporations than ever, sometimes striking two or three at a time. The big fish have attracted a new wave of hungry rivals, and the schools of publicly traded companies they feed on are swimming increasingly scared.

But the days of the quick and easy chomp are over. In the past year the takeover hunt has changed significantly, worsening the risk-reward ratio for those who prey. The soaring stock market has made so-called undervalued companies much more expensive. Changes in the tax laws have soured the economics of liquidating and spinning off assets after a takeover, limiting the payoff. A recent change in the Hart-Scott-Rodino law, requiring raiders to disclose relatively small holdings in companies, diminishes the element of surprise. And a Supreme Court decision last spring sanctioned a spreading rash of state laws aimed at protecting local companies from hostile takeovers.

It gets worse. The Ivan Boesky scandal and other insider trading revelations have tipped the Great Takeover Debate against the raiders. Even more damaging, speculation that investment bank Drexel Burnham Lambert would be caught in the scandal impaired its junk bond financing capability—perhaps the biggest gun in the raiders' arsenal. Says Joseph Perella, co-head of mergers and acquisitions at First Boston: "All raiders, particularly those who don't have a lot of cash or equity, are less formidable today because Drexel is not promoting as many of their activities with letters claiming it is 'highly confident of obtaining financing.' That seriously limits their ability to do deals."

REPORTER ASSOCIATE *Wilton Woods*


SHARK SCALE
A raider's score rises with his cash, credibility, and appetite.
4 fins: swallows companies
3 fins: takes big bites
2 fins: draws first blood
1 fin: nibbles and runs

JAMES ROMERO

The takeover backlash and longer odds have knocked a few sharks out of the water. Victor Posner, 68, a pioneer corporate plunderer, was beached by the bankruptcy filing of Sharon Steel, his biggest conquest, and lawsuits alleging he milked companies he acquired. Some dispirited raiders are cashing in or looking overseas. The Bass brothers of Texas, after making over $850 million on their investment in Walt Disney Co., have split up their loot and gone separate ways. Maverick Asher Edelman, 47, is casting his nets in Europe and Brazil, where he says the economics are better and shareholders are treated more fairly.

A few raiders, after years of assailing the corporate establishment, are joining the club and trying to run big companies. Saul Steinberg, for instance, has settled down in middle age—he's 48—to tending his huge Reliance Group insurance empire and throwing dinner benefits for such classy causes as New York's Metropolitan Opera. Says a takeover lawyer: "The new religion is that you can make more money owning and operating companies than trading their stock."

Maybe, but most raiders have not yet been converted. Many are as active as ever, and several lesser-knowns are nosing into the game. Canadian Robert Campeau, 63, landed a whale of a company in Allied Stores last year and is looking for other U.S. companies. Sam Heyman, 48, took over GAF, almost nabbed Union Carbide, and seems eager to bite into something new. Dallas investor Harold Simmons, 55, picked up NL Industries last year and this year bought a chunk of McDermott International, a big engineering and oil services company.

Florida-based Paul Bilzerian, 37, has been in and out of Hammermill Paper, Allied Stores, and Pay 'N Pak. He is known on Wall Street as a reckless but effective trader who, even after making $115 million, still lacks enough money for a really big deal. Other promising newcomers: Washington, D.C.-based Arthur Goldberg, 45, ("could become a big player, but the jury is still out," says an investment banker), and reclusive English investor Alan Clore, who keeps even his age (in the early 40s) a secret.

A raider's reputation—a currency worth more than money—rises and falls with each deal. To determine how a dozen major raiders rate (see Shark Scale), FORTUNE informally surveyed investment bankers, arbitragers, takeover lawyers, and institutional investors. The benchmarks were credibility, financial clout, aggressiveness, savvy, and success in making money, both for themselves and shareholders.

Belzberg Brothers

GRANITZ—DOWNE

Raider rating:	**1**
War chest:	**$200 million**
Net worth:	**$300 million**

BIG DEALS: Scovill, 1985, $540-million investment; Gulf, 1984, $70-million profit; Bache Group, 1981, $40-million profit.

THE BELZBERGS—from left, Hyman, 62, William, 55, and Sam, 59—got a bad rap when they descended from Alberta in 1980 to scare Bache into the arms of Prudential. Bache executives spread unsubstantiated stories about the Belzbergs' alleged ties to organized crime—seems U.S. Customs agents spotted Hymie socializing with Mafiosi in Acapulco—and they've never been able to dispel the sleazy image.

The sons of a Polish immigrant who made a small fortune in used furniture, the Belzbergs are led by middle son Sam, who built up the family's cash by trading oil and gas leases in Canada. The brothers used their notoriety from the Bache episode to put a string of companies, including Potlatch and Ashland Oil, in play. When the target managements offered them extra money for their shares—greenmail—the brothers took it. They've also joined raids led by Carl Icahn (Phillips Petroleum) and Boone Pickens (Gulf).

In the past decade the Belzbergs have taken over only one major company, Scovill, the Connecticut-based industrial conglomerate. They recently recovered their $540-million investment, but have lost money on other deals including H.H. Robertson, a construction company, and Century Capital Associates, an investment management firm. Arbitragers distrust them because they accept greenmail. Investment bankers consider them mainly financial opportunists, and not particularly good ones. Says one: "They overpaid for the one company they bought, and they're nickel-and-dime artists on everything else."

Coniston Partners

MARIA ROBLEDO

Raider rating:	**3**
War chest:	**$700 million**
Net worth:	**$80 million**

BIG DEALS: Allegis, 1987, $230-million paper profit; Viacom International, 1985-86, $61-million profit; Storer Communications, 1985, $39-million profit.

CONISTON is the new name in town. The three principles—from left, Gus Oliver, 37, Keith Gollust, 42, and Paul Tierney Jr., 44—have yet to take over a company. Instead they engage in what they call "strategic block investing." They buy big positions in companies with assets they consider undervalued by the stock market, and then they try to influence management to restructure and thus boost the stock's price. Says one takeover lawyer: "They're not in it to operate. They hope something happens."

The partners get high marks for investment savvy, doing their homework, clever proxy tactics, and brilliant timing. Their triumph over Allegis this spring lifted the group into the first tier of corporate raiders. The trio played a key role in pressuring the company's board to dump Chief Executive Richard Ferris and sell off Westin Hotels and the Hertz car rental operation rather than meld them with United Airlines into a grand travel empire, as Ferris wanted. The stock took off from around $60 to over $90, and Coniston, which is still holding on to its investment, clearly thinks it will go higher.

"People don't think they're raiders because they're young and smile a lot, but ask Storer Communications, or Richard Ferris at Allegis," says one dealmaker. "Coniston took them to the wall." The only factor keeping the partners from a higher rating is money. Much of the $700 million they manage is tied up in current deals, restricting their scope to only a few plays at a time.

Asher Edelman

J. P. LAFONT—SYGMA

Raider rating:	**2**
War chest:	**$500 million**
Net worth:	**$100 million**

BIG DEALS: Burlington Industries, 1987, $65-million profit; Ponderosa, 1987, $300-million investment; Fruehauf, 1986, $21-million profit.

A TAUT, ATHLETIC MAN who looks as if Ralph Lauren dresses him personally, Edelman, 47, is the first to admit he is a something of an enigma on Wall Street. Mention his name to an investment banker and you are likely to get a guffaw. Best not to mention it to arbitragers because many of them have lost money on him. "He's a minus 20," says one coldly. "You can't trust the guy." Other critics, who concede he is bright, complain he thinks too highly of himself and won't listen to advice. A takeover specialist says: "He's a loose cannon who is all over the lot."

Still, Edelman commands begrudging respect for spotting undervalued companies and hanging in there, even when he runs into trouble. Edelman is an asset player who used to buy a big position in a company and then persuade management to sell off divisions, on the often valid theory that the parts are worth more separately than together. He scored with a New York real estate holding company and a small New Jersey computer company but quickly ran into trouble when he tried to duplicate the feat in 1984 by buying into two more computer firms. Both had a raft of unseen problems that he is still trying to solve.

Undaunted, Edelman now professes that owning and operating companies can be more profitable than liquidating them. Recently, though, he has made more money from quarry that got away (Burlington Industries) than those he has won (Ponderosa). He has also taken up teaching at Columbia University's School of Business. His course: Corporate Raiding—The Art of War.

continued

Sir James Goldsmith

J. DONOSO—SYGMA

Raider rating:	**4**
War chest:	**$800 million**
Net worth:	**$1 billion**

BIG DEALS: Goodyear, 1987, $90-million profit; Crown Zellerbach, 1985, $580-million investment; Diamond International, 1980, $500-million profit.

SUAVE, IMPOSING Jimmy Goldsmith, 55, ranks among the smartest and heaviest-hitting corporate raiders. In addition to brains, money, and track record, Goldsmith gets credit from the takeover fraternity for charm and class—qualities that have made him more acceptable to the boards of target companies than abrasive raiders like Carl Icahn. Goldsmith fills his residences in Manhattan, London, Paris, and the Spanish countryside with elegant tapestries and fine art, and for years made no secret of his unusual domestic arrangements: a wife and two children in Paris and a mistress and three children in London (he eventually divorced, and married the mistress).

When Goldsmith recently sold off much of the multinational empire he built in finance, publishing, forest products, and food, he said he was tired of management. But financial observers say he is worried about political attacks on takeovers in the wake of the Boesky affair and the possible collapse of highflying stock markets worldwide. At a congressional hearing on his proposed takeover of Goodyear last fall, he warned that the U.S. was in danger of catching what he calls the European disease: "a triangular alliance of big unions, big government, and big management."

This year Goldsmith discussed investing in Pan Am at the urging of the troubled airline's unions, but Wall Street insiders say he is quiescent for the moment. "He looks like a bearish investor who is cashing in," says one money manager. Another notes, however, that he is sitting on a lot of cash: "If he wants to go, get out of his way."

Herbert Haft

RHODA BAER

Raider rating:	**2½**
War chest:	**$700 million**
Net worth:	**$500 million**

BIG DEALS: Supermarkets General, 1987, $40-million profit; Safeway, 1986, $140-million profit; Jack Eckerd, 1985, $9-million profit.

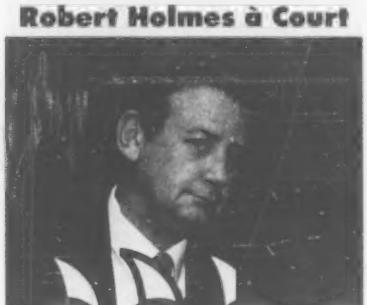
THE HAFTS of Washington, D.C., are puzzling but promising comers in the raiding game. The son of a pharmacist, Herbert, 66, pioneered the concept of discount drugstores and developed a major local chain, Dart Drugs. His son Robert, 35, a graduate of the Harvard Business School, applied the same discount concept to books, building Crown into America's third-largest bookseller.

At the peak of the expansion in discount retailing in 1984, Herbert sold Dart Drug to its management for $160 million and launched a series of raids on national retailers. Terrified of Haft's cheapskate reputation—he was known for paying bills late and undermanning his stores—most of his targets chose to go private rather than surrender. Says one M&A chief: "He ran that drugstore chain down the tubes and then he sold it to his own people, who overpaid for it."

Haft is a little eccentric. Married to a beautician, he styles his shock of white hair into an eye-popping pompadour; he won't talk to the press, and last year tore down a $1-million Tudor mansion he bought in Washington so he could build a grander $4-million house in its place. While he has failed to take over any of his targets, he has pocketed millions in trading profits and earned a reputation for accepting greenmail. Wall Street has only recently begun taking the Haft father-and-son team seriously and pegs them primarily as speculators. "They say they want to own and manage companies, but they're real estate guys at heart," says a takeover lawyer. "They always stop a couple bucks short when a company wants to get sold."

Robert Holmes à Court

JOHN HAY



Raider rating:	**2½**
War chest:	**$1.1 billion**
Net worth:	**nearing $1 billion**

BIG DEALS: BHP, 1987, $1-billion paper profit; Texaco, 1987, $180-million paper profit; Herald & Weekly Times of Australia, 1986, $70-million profit.

THE INTENTIONS of Holmes à Court are as mystifying to most investors as his nomad background. His father was a British migrant worker in South Africa who ended up with a farm in Rhodesia. Holmes à Court (the Anglo-French name dates to the Norman Conquest) studied agriculture in New Zealand and law in Western Australia, only to drop his practice in Perth, where he still lives, to pursue big-time investing around the world. His specialty: troubled companies.

Holmes à Court built his fortune by turning around a government-subsidized wool mill, an ailing supplier of construction equipment, and various media holdings in Australia. A patient hunter, he has been stalking Broken Hill Proprietary, Australia's biggest company, for six years and today owns about 30%. Like Rupert Murdoch, Holmes à Court moved on to big game in Britain and the U.S. He took over Associated Communications from Sir Lew Grade for $80 million, then sold rights to Beatles' songs carried on the books at $5 million to Michael Jackson for $40 million. In the U.S. he has taken positions in Asarco (12%), USX (under 5%), and most recently Texaco (9.4%).

A soft-spoken recluse who collects art, Rolls-Royces, and race horses, Holmes à Court gets a middling rating as a raider on Wall Street, largely because people can't decide whether he is for real. "He's more of an investor than a raider," says one money manager. "He's very smart, but he spreads himself too thin," says an investment banker. "If he went for manageable targets, he would gain credibility and could become a major player."*continued*

Carl Icahn

JOYCE R. - O

Raider rating:	4
War chest:	$1 billion
Net worth:	$200 million

BIG DEALS: TWA, 1986-87, $100-million paper profit; USX, 1986, $100-million paper profit; Union Carbide, 1986, $40-million profit.

GETTING STUCK with TWA could have been the best thing that ever happened to Icahn, 52, the mild-mannered New York suburbanite who apparently loves to be hated. Up until his dogfight with the airline last year, he had perfected the hostile takeover bid into what has become the textbook corporate raid, making millions for himself and co-investors along the way. Typically he would buy into a company, bang the drums about mismanagement, threaten a takeover bid, and then either sell out as the company's stock price rose or accept a buyout or greenmail offer. Unlike other raiders, Icahn has a thick skin about the G word. "Carl is in it for Carl," says another raider. "His favorite quote is, 'If you want a friend, buy a dog.' "

A dog is just what troubled TWA looked like after Icahn's junk bond financing fell apart in the wake of the Boesky scandal. Rather than bail out at a loss, Icahn soon proved he was as good a manager as a corporate critic. TWA reported record operating profits for this year's second quarter, and Icahn now proposes to take the company private in a $1.2-billion deal that would give him back his $440-million investment, plus 90% of the company.

That coup has sent Icahn's own stock soaring on Wall Street. Ironically, his success at TWA may change his status from vilified raider to member in good standing of corporate America. Complains one arbitrager, who downgraded Icahn from a 4 to a 3 because of his new management role: "He's less of a factor now because he's too wrapped up in TWA."

Irwin Jacobs

STEVE WOLF—PICTURE GROUP

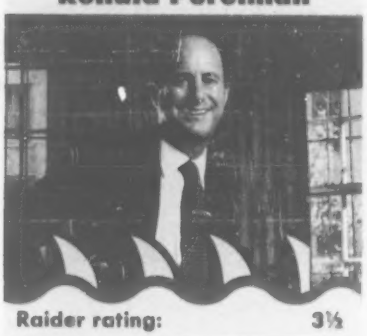
Raider rating:	1½
War chest:	$750 million
Net worth:	$200 million

BIG DEALS: Bekins, 1986, $90-million investment; Walt Disney, 1986, $28-million profit; AMF, 1985, $560-million investment.

IN THE RAIDING BUSINESS you're only as good as your last deal. Irwin Jacobs's latest transaction was selling his chief investment conglomerate, Minstar, a hodgepodge of companies whose stock price has been flat, to one of its subsidiaries, Genmar, a profitable boatmaker. The result: Minstar's stock picked up and Genmar's slid—not the kind of stuff that excites Wall Street. The deal seemed to sum up Jacobs's current status. He has been churning up as much water as usual but doesn't seem to be getting anywhere. In August he splashed around Gillette and McGraw-Hill.

Jacobs made a name for himself—Irv the Liquidator—buying failing companies and liquidating their assets for million-dollar profits. His reputation grew when he took over AMF, the well-known sporting goods company. But he started to make a habit of taking big stock positions in companies, sending threatening letters to their managements, and then selling out as the stock price jumped, often pocketing greenmail in the process. As a result, many Wall Street insiders think of him primarily as a trader, and not always a good one. Says one arbitrager, remembering Jacobs's ill-advised investment in Tidewater, an oil and gas company: "It's tough to buy a stock at $25 a share and have it go to $5." A college dropout, Jacobs gets a low rating on smarts from some Wall Street pros but scores high on sheer aggressiveness. Says one sharp-tongued dealmaker: "He's thick in the neck and narrow in the brain." Another calls him a bull in a china shop: "There's no rhyme or reason to anything he does."

Ronald Perelman



BOB KRAMONTH

Raider rating:	3½
War chest:	$1.6 billion
Net worth:	$300 million

BIG DEALS: CPC International, 1986, $94-million profit; Pantry Pride, 1985, $60-million investment; Revlon, 1985, $1.8-billion investment.

THE CIGAR-SMOKING CHAIRMAN of Revlon recently pulled into the takeover fast lane, scooting up to become one of the most respected and aggressive raiders around. In the past year he made passes at Transworld, the restaurant and hotel chain, CPC International, the food processor, and—three times—Gillette, the razor and toiletries company. He is a tough and tenacious negotiator who holds on until he gets what he wants.

The son of a wealthy sheet-metal manufacturer from Philadelphia, Perelman ran his father's firm for a couple of years before striking off on his own in New York, where he bought control of his first company, a jewelry distributor. Other acquisitions followed in quick succession. Perelman, 44, is a leveraged-buyout artist who goes after companies he considers overdiversified, with high cash flows and low stock prices. Once in control, he sells off the divisions and assets he deems superfluous and beefs up the core business.

Perelman is married (for the second time) to gossip columnist Claudia Cohen, who has helped the once publicity-shy executive develop a celebrity profile. Their wedding party took place at the Palladium, a chic Manhattan dance club. "He came out of nowhere and has proven himself to be a very smart businessman who pays close attention to what he is doing," says Ronald Freeman, co-head of Salomon Brothers' mergers and acquisitions department. Adds Robert Willard, the M&A chief at Prudential-Bache: "He is perceived as someone who wants to buy and control assets rather than just trade them." *continued*

T. Boone Pickens

GEORGE LANGE—OUTLINE

Raider rating:	2½
War chest:	$1 billion
Net worth:	$110 million

BIG DEALS: Phillips Petroleum, 1985, $89-million profit; Unocal, 1985, $83-million profit; Gulf, 1984, $218-million profit.

BOONE should have stayed in the oil patch. His simultaneous attacks this summer on defense contractors Boeing and Singer, followed by a $5.6-billion bid for Newmont Mining, have confused Wall Street and undermined his credibility. His rating has slipped sharply as a result. The consensus seems to be that Pickens, 58, is having trouble meeting the $50-million annual dividend obligation of Mesa Limited Partnership, which he heads, and consequently is looking to shake some trees for quick stock-trading profits. Says one M&A specialist: "He's a desperate man."

A fitness buff and sportsman, Pickens hunts quail on his Texas Panhandle ranch, plays racquetball, prides himself on his poker, and hates smoking—he has a habit of snatching cigarettes out of employees' mouths and stubbing them out. One dealmaker notes Pickens has been less formidable since he stopped working with well-known takeover lawyer Joseph Flom, and concludes: "Boone's been out of it for two years, and now he's playing a shill game—not very successfully. The last big company he tried to get, Diamond Shamrock, blew him away."

Takeover specialists show a tinge of disappointment that such a colorful and popular Wall Street hero has fallen from grace. "Pickens did the nation a real favor over the last five years when he forced the oil industry to consolidate against its will," says a dealmaker. "But he is the archetype of the corporate raider who never bought anything. In the last few weeks he has totally undercut his image. I don't know what the hell he's doing."

Donald Trump

MICHAEL O'NEIL—OUTLINE

Raider rating:	1
War chest:	$600 million
Net worth:	nearing $1 billion

BIG DEALS: Resorts International, 1987, $101-million investment; Allegis, 1987, $72-million profit; Holiday, 1986, $38-million profit.

IT WAS PERHAPS INEVITABLE that Donald Trump, 41, would be drawn to the takeover wars. The attention-seeking New York master builder likes action, has made a ton of money, and fancies himself the world's best dealmaker. While he was erecting luxurious skyscrapers in Manhattan and, later, glittering casinos in Atlantic City—many of which bear his name—the business press covered him only scantily as it was hyperventilating over the new swashbucklers of the 1980s, the corporate raiders.

Trump is no dummy when it comes to promotion. He tested the waters in Atlantic City, making passes at Holiday Corp. and Bally before buying Resorts. He also dabbled in such companies as American Can and RCA. "It was just too easy," he said. "I buy stock—and boom." He made his biggest killing on Allegis, acquiring shares at $30 and selling out a few months later at $65—too soon, as it turns out, since the stock recently traded over $90.

With drive, money, and a real estate man's eye for asset values, Trump appears to possess all the qualifications of a big league raider. But the consensus on Wall Street is that he lacks credibility. His recent political statements, stirring up rumors he may run for President, haven't helped. "I don't have the slightest idea what he's doing," says one takeover lawyer. "He's in and out, in and out. It's hard to separate the man from the publicity." Says an arbitrager: "He's out for Donald Trump. He will sell his position out, take greenmail, and he doesn't care what happens to other shareholders."

Sir Gordon White

ANDY FREEBERG

Raider rating:	4
War chest:	$6 billion
Net worth:	$40 million

BIG DEALS: Kaiser Cement, 1987, $200-million investment; SCM, 1986, $930-million investment; U.S. Industries, 1984, $533-million profit.

HANSON TRUST, a relatively obscure Anglo-American holding company run by Lord Hanson in England and his dapper partner, Sir Gordon White, in the U.S., has built up a war chest of over $6 billion—rivaling Ford Motor Co.'s $9.1-billion hoard. That fact alone makes Hanson Trust one of the most daunting raiders in the business. And unlike Ford, which concentrates on building cars, Hanson Trust focuses mainly on acquiring companies.

In the past two years the company has doubled revenues to $6.2 billion by buying mismanaged nuts-and-bolts firms with dependable cash flows, lots of salable assets, and low price-earnings ratios. Generally Hanson Trust sells some assets to reduce debt and holds others it thinks it can turn into winners by cutting costs. Sir Gordon, 64, a voluble playboy who has been divorced three times and dates actresses and models, says the company's aim is to become Britain's largest conglomerate and one of the 50 biggest in the U.S. (it is now ranked 97 on the FORTUNE 500). Lately finding low-priced companies has been difficult, though not impossible. In August, Hanson announced a $1.8-billion deal to acquire Kidde, which makes everything from kitchen pots to Jacuzzis.

White has dropped hints he is prowling for something a lot bigger that could double Hanson Trust's revenues overnight. Seeing a track record like his, Wall Street takes Sir Gordon at his word. One investment banker says: "Everything they've gone after, they've acquired. And they haven't overpaid." F

THE FORTUNE

In an exclusive survey—first of a series—America's top executives reveal their views

TERRY LEE—BLACK STAR

AM's Banta

MARIA ROBLEDO

Avon's Waldron

HEINZ KLUGER

Enron's Lay

ANDREW POPPER

Texaco's Kinnear

THE TYPICAL chief executive of a FORTUNE Industrial 500 or Service 500 company is convinced of a couple of things: There will *not* be a recession next year and inflation will *not* get out of hand in 1988. Yet he is no more certain about the stock market than most people, thinking it is nearly as likely to go up as to go down in the next 12 months. His views on executive succession may discourage female aspirants. Ability notwithstanding, the CEO would be willing to bet a cigar or two that, alas, no woman will be boss of his company by the year 2000.

These are among the results of the first FORTUNE poll of more than 100 CEOs. The survey will be conducted several times a year on a variety of questions.

The executives were also asked to suggest what the U.S. should be doing to improve its international competitiveness. Their replies, often passionate, were summed up by Merle H. Banta of AM International, the office machine and computer company. Says he: "It's not a single policy. It is a whole array of things. It is trade policy, the deficit, the tort system and environmental laws, corporate policies, and the educational system. If we don't remain competitive, our children will suffer—they will have a lower standard of living than we did."

The respondents were selected from among the largest companies in each industry in the FORTUNE 500 and the Service 500. The methodology used makes the results reliable and projectable, meaning they are as valid as if all 1,000 CEOs had been interviewed. The telephone poll was conducted for FORTUNE by Clark Martire & Bartolomeo Inc., an independent opinion research firm, from August 10 to 14.

Of the major economic issues facing executives, no two are more important than recession and inflation, which can mangle budget and production forecasts. Fully 84% of the CEOs polled did not see a recession—that is, two consecutive quarters of decline in real GNP—by the end of 1988. In all, 81% agreed that inflation would not top 6% next year. Those opinions concur with FORTUNE's forecast, which bars the recessionary wolf from the door at least through 1988 and sees inflation averaging 5.5%.

The CEOs' faith in the economy did not necessarily extend to stocks. In all, 50% said the market would be lower a year from now; 42% believed it would

Q RECESSION

Do you expect a recession—that is, two or more consecutive quarters of decline in real GNP—by the end of next year?

A	
NO	84%
YES	13%
NOT SURE	3%

Q INFLATION

Do you expect inflation, as measured by the consumer price index, to be more or less than 6% next year?

A	
LESS THAN 6%	81%
MORE THAN 6%	12%
ABOUT 6%	7%

Q THE MARKET

Do you expect the stock market to be higher or lower a year from now than it is now?

A	
LOWER	50%
HIGHER	42%
ABOUT THE SAME	4%
NOT SURE	4%

Q WOMEN

What are the chances of a woman becoming CEO of your company by the year 2000?

A	
POOR	40%
FAIR	40%
GOOD	20%

500 CEO POLL

on inflation, recession, women at the top, and more.

■ *by Bill Saporito*

be higher. The Dow Jones industrial average hit 2690 the week of the interviews. (For an analysis of the new forces behind stock values, see the cover story.)

What is the major impediment to U.S. competitiveness abroad? The CEOs' favorite villain is Washington. When asked in an open-ended question to suggest ways to improve competitiveness, 28% responded that the federal government should interfere less with business. "We need less U.S. government intrusion and regulations on the business of American firms," says Leslie McCraw of Fluor Daniel, an engineering and construction company. George M. Keller of Chevron echoes the sentiment: "We have to get unregulated. We are commercial industries, not instruments of foreign policy, and we are not political animals." John McConnell of steelmaker Worthington Industries insists, "The government should either reduce Environmental Protection Agency requirements or help finance them."

Despite their complaints, the executives see several legitimate roles for government, particularly in promoting free trade. That was cited by 19% of the respondents as something the government should do to improve competitiveness. When trade is not free, they want the odds evened, as Rubbermaid's Stanley C. Gault explains: "We need to get a trade bill at the federal level that addresses the improper and unfair trading practices between the U.S. and its major trading partners. We don't have a fair and free opportunity. Our market is open to any producer, yet in many cases their markets are virtually closed to American products." Even so, without prompting, a third of the CEOs declared themselves free marketers opposed to outright protectionism. As John Hayes of National Gypsum Co. says, the government should "break down protectionist barriers and not permit any new protectionist barriers."

Decreasing the deficit and balancing the budget are also among the executives' favorite prescriptions, with about 19% mentioning them. Many CEOs see debt reduction as the first step of a two-part program, the second being either market intervention by the Federal Reserve to weaken the dollar still further in order to enhance exports, or more incentives to encourage capital formation and growth. "Restore the tax incentives that were taken away by tax reform, such as the investment tax credit," implores Milton H. Ward of Freeport-McMoRan, a mining company. "We need to build incentives for the development of new companies."

While many of these business leaders agree that deregulation and deficit reductions are the government's best weapons to help business, Kenneth L. Lay of Enron Corp., a natural gas company, would change the whole tax system. "We should be shifting to the value-added tax, comparable to the European market's, as opposed to a corporate income tax," he says.

The CEOs had less to say about what business should do on its own to improve its competitiveness. Most important, many assert, is increasing productivity, mentioned by 16% of the group, and cutting costs, cited by 11%. Hicks B. Waldron of Avon argues that "raider activity is hurting our productivity and competitiveness." Nearsightedness is another problem, says James Kinnear of Texaco: "The pressures associated with short-term earnings results tend to reduce the amount of money spent on R&D, which is an inherently long-term process." William J. Popejoy of Financial Corp. of America sums up, "We must compete through research and development to make cheaper and better products. The key is to provide the cheapest product with the best quality. If we fail to do this, we will fall further behind."

By any measure, it's a healthy sign when increased productivity comes through as the executives' principal goal. And, as indicated in FORTUNE Forecast, there is already surprising and heartening progress in manufacturing productivity. F

BRUCE DAWSON—WORTHINGTON

Worthington's McConnell

ANDREW POPPER

Gypsum's Hayes

Rubbermaid's Gault

ROBERT HOLMGREN

Chevron's Keller

Q COMPETITIVENESS

What should the U.S. be doing to improve its international competitiveness?

A (MOST FREQUENT RESPONSES)

REDUCE GOVERNMENT INTERFERENCE	28%
PROMOTE OR MAINTAIN FREE TRADE	19%
BALANCE THE BUDGET OR DECREASE THE DEFICIT	19%
INCREASE PRODUCTIVITY	16%

CORPORATE PERFORMANCE

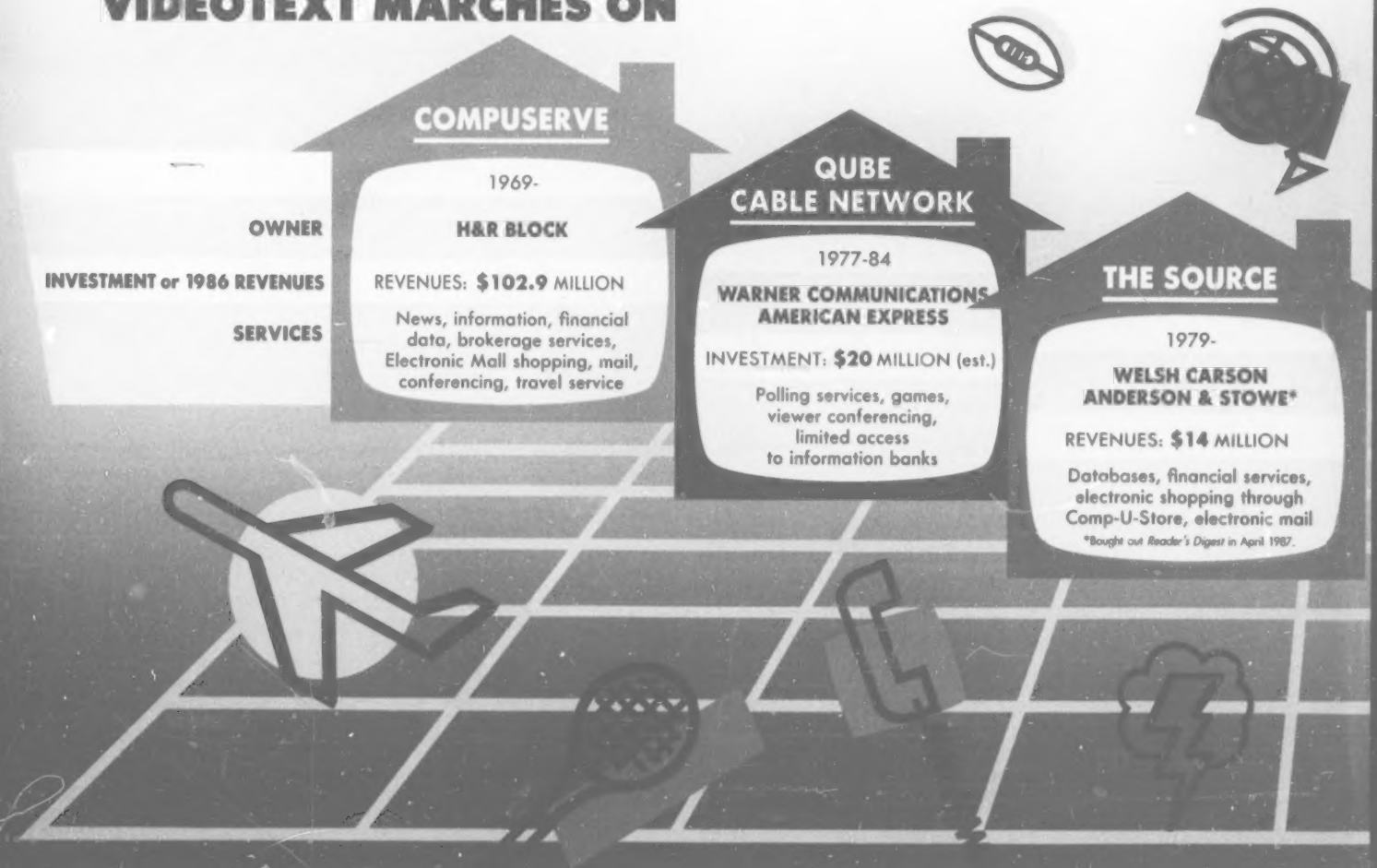
ARE IBM AND SEARS CRAZY? OR CANNY?

In a gamble on the future, the two giants have invested $250 million to deliver services to consumers by personal computer. It looks more like a bust than a bonanza. ■ *by Bill Saporito*

A LOT OF COMPANIES with high hopes and deep pockets have lost money on videotext services over the years, and the few successes have been modest at best. The idea behind videotext is intriguing: Provide consumers with easy electronic ways to get information, buy goods and services, and pay their bills. Now two companies with pockets that reach to their ankles are in the game—IBM (1986 sales: $51.3 billion) and Sears ($44.3 billion). They have already sunk an estimated $250 million in a joint venture they call Trintex, and stand to throw in millions more—with no great demand yet in sight.

Success would mark these managers as visionaries on Wall Street, of course, but other giants have cut and run from videotext investments. CBS, an early partner in Trintex, was unwilling to wait for the pot of gold IBM and Sears expect to find in the next decade, and pulled out after dropping $40 million. In 1983, after spending some $25 million experimenting with a teletext system using home TV screens, Time Inc., FORTUNE's publisher, decided not to proceed, and in 1986 it withdrew from Covidia, in which it was a 5% partner in a joint venture with AT&T and Chemical Bank to deliver banking services and entertainment listings.

VIDEOTEXT MARCHES ON



What draws IBM and Sears on is the same old dream that other videotext pioneers found so enticing and costly, of a world in which computer-based communications systems will be as ubiquitous as today's telephone. To turn dream into reality, hundreds of programmers and technicians have labored monklike for nearly three years in a nondescript office building in White Plains, New York, developing a product that is still about a year from coming on the market. (The product is so secret that FORTUNE was not allowed to photograph the monks at work.) The sorry history of the business does not discourage Theodore C. Papes Jr., a former boss of IBM's European operations who is CEO of Trintex. Says Papes: "We're creating something so compelling that you'll say, 'I've got to have it.' "

The product in this case is called Prodigy, described by Trintex as an "interactive personal service" and generally known as a public-access videotext (PAV) network. It's an on-line computer service—that is, you call it up—that lets you both send and receive data over a telephone line, with the aid of a modem. Hartford will get Prodigy sometime next year, with Atlanta, San Francisco, and Boston most likely to follow. The company will charge about $10 to $15 a month for the service, roughly the price of cable television. Trintext hopes to have a nationwide system in place in three years.

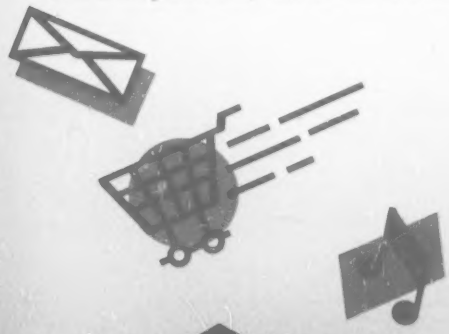
Prodigy expects to collect most of its revenue by sending to users commercial messages from 60-odd advertisers such as GMAC and Levi Strauss, which have signed up with Trintex for its initial run. Advertisers will pay fees based on the number of customers who actually receive a message on their screens. That degree of accuracy in measuring exposure to an ad has previously been unattainable. Prodigy will also allow advertisers to target users: for example, female runners under 35 who buy champagne.

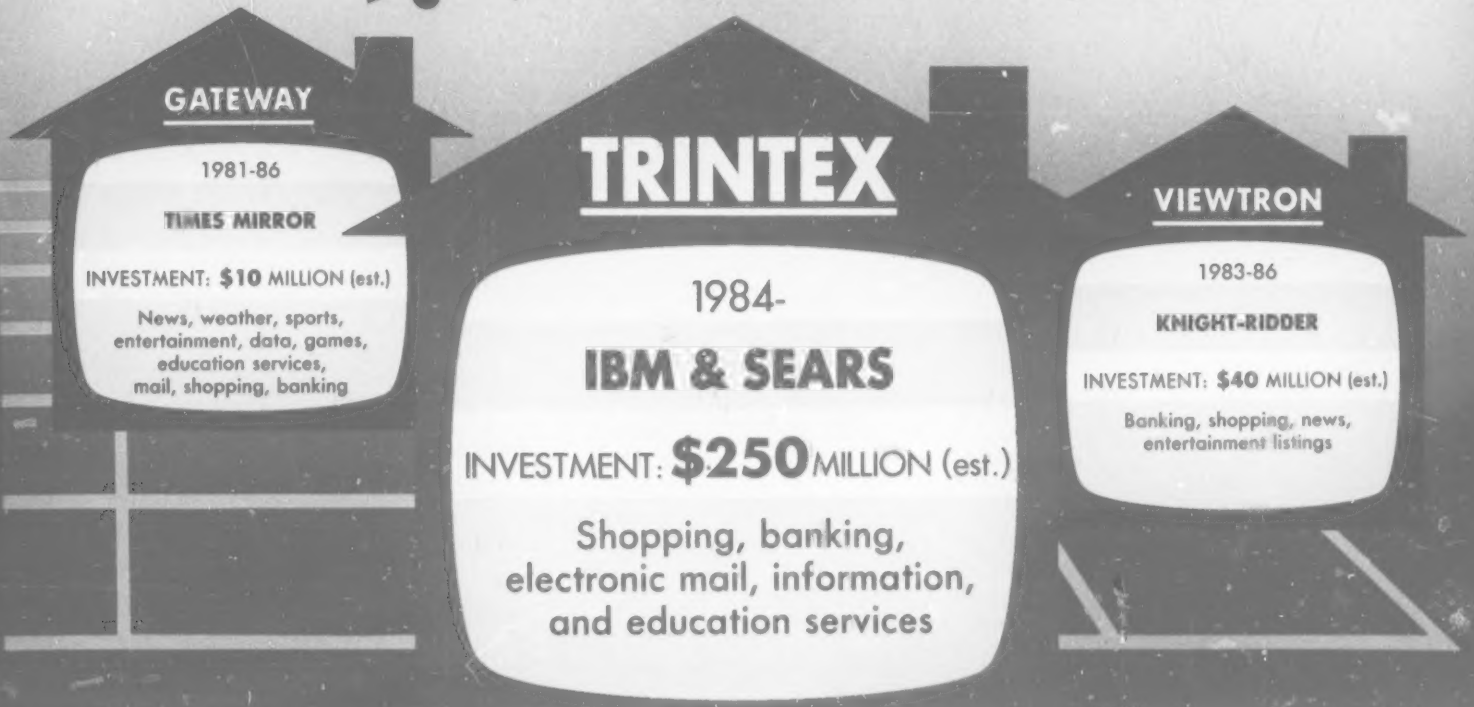
The system Trintex is building is huge—designed to handle ten million subscribers—and expensive. With about 600 full-time employees plus a host of loaners from IBM, Trintex can succeed only by making Prodigy a mass-market whiz in what has been a niche business. Other on-line companies such as the Source, CompuServe, QuantumLink, and Dow Jones News/Retrieval sell their services to one or both of two kinds of consumers: computer nerds who love to play games, write programs, and talk to fellow nerds, and information junkies like journalists and investors who can't bear to be out of touch with the greater world. All together these services have about a million users.

Prodigy is an extraordinary attempt to prove that the theory behind interactive systems is sound and that only proper execution was lacking during the adolescence of personal computers in the early 1980s. Lots of smart people were predicting then that the PC would become the new focal point for all kinds of transactions and information. The technology was available, a market of sorts existed, but, as analysts say, the systems lacked value-added utility. In other words, videotext didn't do squat for most people.

TO TRY to add value, Trintex will offer a jazzy graphics package and an easy-to-operate—okay, user-friendly—program that doesn't force the viewer to run through enough commands to set up a moon shot when he just wants the weather map. Prodigy is designed to use only five to eight command words displayed along the bottom. "We drag people in off the street, give them 30 seconds of instructions and see if they can get going on the system, and generally they can," says Harry E. Smith, senior vice president of commercial marketing. One of the commands, called Path, lets the operator cruise along a previously selected list of service items. Subscribers can elect to get the news first, the grocery store next, their bank account third, and so on, by making just one keystroke per step. There is no need to go to a master menu each time and then through another series of commands just to view a single section. This "personalization" by the user is what Trintex executives believe will make the system attractive.

Subscribers will need powerful machines to use Prodigy because it sucks up enormous





amounts of computer capacity: To produce a full-screen image of near-photographic quality can take more than 64,000 (64K) bits of information—the entire memory of many lower-priced computers. Initially a subscriber will have to own an IBM or compatible PC that can store 256,000 (256K) bits of information in its memory. The user will also need a modem, a color monitor, and a graphics card—an electronic device that allows the monitor to display illustrations. Right now that relatively high-powered setup requires at least a $1,200 investment.

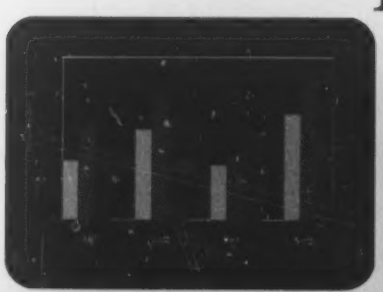
THE PLANK to which Trintex is nailing its business plan is the same one that supported the hopes of previous failures. With other pioneers, IBM and Sears believe that the number of homes giving shelter to a personal computer will increase exponentially as the price of the technology continues to slide. Today more than ten million U.S. households have one. But most of these machines are not powerful enough to use Prodigy, and fewer still have a modem. To break even, Prodigy will need several million subscribers. The company believes that it will have a chance to get them when the price of computer, modem, and color monitor is under $1,000, and that a true mass market will develop when the price drops below $500. Trintex isn't saying when it expects to see the $500 average, but CompuServe, another on-line network, forecasts 13 million homes will have computers *with* modems by the end of 1992.

Even if they do, will the occupants want a shopping and information service? Experience indicates most will not. Says Martin Nisenholtz, director of interactive media for Ogilvy & Mather: "Videotext was born of technology, not of any particular need. The challenge is, and has been, to provide a service that is attractive to consumers. It is as simple as that."

The predicament goes back to videotext's earliest days. The pioneer Qube, a joint venture of American Express and Warner Communications, got gobs of publicity but few users. The problem persists. American Airlines recently turned down an invitation to invest in Trintex, though Prodigy customers will be able to use American's Eaasy Sabre reservation system. Eaasy Sabre has been available to consumers on several videotext services for the past 18 months. The results have been unimpressive, says Max Hopper, the airline's vice president of information systems. Even consumers who have access to Eaasy Sabre find it more convenient to pick up the phone and call the airline the old-fashioned way.

Computer owners have not proved to be prodigious shoppers. Despite catalogues and television shopping networks, about 90% of all retail sales are still made in stores, according to Touche Ross. The accounting firm projects that nonstore sales will account for no more than 20% of the total in a decade. Gateway, owned by Times Mirror, offered an electronic shopping service that "went to hell in a handbasket," recalls James Holly, who ran Gateway. "Our customers just had no interest in general shopping." CompuServe says its Electronic Mall service is successful, as does CompuCard, another shop-by-computer system, but neither service has many subscribers. Nancy Beckman at the

To get Lotus 1-2-3 to do all this more quickly and easily, we didn't make it more powerful.



To graph sales by district from January to March just request ***"graph Jan to Mar."***

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Say you want to extract specific information from a database. In this case, simply request ***"who has sales ≥ 8000."***

You can sum up sales figures with Lotus HAL, by requesting ***"total all rows."*** *1-2-3 and Lotus HAL will create the formulas.*

Source puts it succinctly: "We suspect Trintex is making a big mistake putting too much emphasis on the shopping."

The things computer users seem to like to do are play games and talk to other users. QuantumLink, a small but profitable on-line service for Commodore computer owners, reports that its subscribers want hobby-type activities. They like games, talking with one another through a service called People Connection, and exchanging software programs. Gateway also found that its subscribers, another convivial group, liked to chat.

Prodigy's hardware and software profile was forged by a culturally skewed intellectual battle among the troops who produced it. "It was political warfare from day one," says an early witness. Sears, America's big store, had been selling goods through a remote channel, its catalogue, for a century. In one sense Trintex was merely an electronic catalogue. Looking deeper, though, the company could foresee retail patterns changing under pressure from time- and information-short consumers, and it also had other things to hawk: insurance from Allstate, financial services from Dean Witter, and real estate from Coldwell Banker.

Even if every home has a computer, will the occupants want a shopping and information service? Experience indicates most will not.

From the outset the Sears side took the position that the product should embrace as many consumers as possible, with the goal of making shopping easier. One participant explains: "The customer is king, and he who owns the customer is prince. If I own the customers, I can migrate them to a greater technical ability." The Sears approach suggested low-end computers or even, gasp, *something else*, like the television-phone link called Telaction that J.C. Penney is tinkering with.

And then there was Big Blue. The IBM gang pressed for more serious hardware. Says Chuck Kushell, a former Trintex marketing director who is now with Hill Holliday, an advertising agency in Boston: "It's always been PC, PC, PC. The joke was that it was going to have to be a water-cooled PC they were trying to push so many mips (millions of instructions per second) into it." Papes, however, argues that Trintex has designed a system that could be adapted if necessary to work with a coming generation of "smart" television sets, as well as with computers. Says he: "We are not painted into a corner. We can put our system in any box you want."

By the time Prodigy is up and running, it probably will face plenty of competitors. A firm called U.S. Videotel has bought rights to the Minitel terminal, which the state-owned French telephone system has put into 2.5 million homes since 1981—where most of them are unused and collecting dust. U.S Videotel plans to launch a Minitel-like system this month in Houston.

J.C. Penney's Telaction will be primarily a shopping service. Customers view products by calling Telaction on the phone and turning their televisions to a specified cable chan-

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Lotus HAL

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nel. By touching the digits on their phones they can stroll through the catalogue as pictures of the items appear on their home screen along with descriptions and prices. Penney has invested about $40 million in the system, which is being test-marketed in Chicago.

Trintex also has to contend with the possibility that the regional Bell operating companies (RBOCs) could enter the business. The RBOCs are enjoined from doing so before 1991 by the federal court decision that broke up AT&T. But a House subcommittee had a hearing in July on whether the RBOCs' inability to get into the information race is causing the U.S. to fall behind other nations in home computerization. Trintex and other information services fear that the RBOCs could gain a significant competitive advantage, since they bring both the bats and balls to the game. Even if the RBOCs don't get into the business themselves, the Federal Communications Commission may allow them to impose added fees on the transmission of data by telephone, on the theory that data transmitters tie up lines for long periods and should pay the full cost of the service they receive.

In the industry, Prodigy's naysayers are vocal. "The longer I was there, the more I was convinced they weren't on to something," says Kushell, the former Trintex marketing man. But Prodigy has some surprising rooters. The on-line companies like QuantumLink and CompuServe, while fearing the prospect of a big competitor, hope Trintex will make consumers more aware of videotext—and more willing to spend money on it. "Trintex is going to advertise like crazy to build the market, and that will help all of us," argues Stephen Case, QuantumLink's vice president of marketing. That's called "legitimizing a marketplace," something for which IBM happens to be famous. Whether it can legitimize this particular offspring remains to be seen.

Trintex and other information services fear that the phone companies could gain a significant competitive advantage, since they own both the bats and balls.

COMPANIES TO WATCH

The Really Useful Group PLC

Phantom of the Opera and friend

■ British pop composer Andrew Lloyd Webber and his publicly held theater production company are about to launch another American invasion. The mop-haired creator of *Cats*, *Evita*, and *Jesus Christ Superstar* recently recruited Broadway's most powerful director, Harold Prince, to produce U.S. shows. The Really Useful Group will also raise the curtain on Webber's London hit *The Phantom of the Opera* this January in New York. Webber, owner of 40% of the stock, "would be a whiz kid in finance if he weren't a composer," says his managing director, Brian Brolly. The Really Useful Group gets 40% of the profits after a show covers its costs, which include royalties to Webber and Brolly as producers. British security analysts estimate Really Useful Group's profits for the fiscal year that ended in June at $8.5 million on revenues of $29 million. The common stock, which debuted in London in January 1986 at $4.79 a share, has risen 56%, about average for the London exchange.

Seligman & Latz Inc.

■ In 1982, Harold Geneen, former head of ITT, wanted to do a leveraged buyout of this doddering retailer, which runs jewelry and hairdressing concessions in department stores and owns a line of cosmetics. But he needed a hands-on manager. So he called David Cornstein, who had started his own jewelry and watch repair company. "I was flabbergasted," recalls Cornstein, who had never met Geneen. "He said that if we revived the business and then sold it or took it public, my share would be $275,343,000.18." Three years later, with financial help from Nathaniel de Rothschild of the French banking family, Geneen's group pocketed Seligman & Latz for $42 million in cash and $47 million of debt. In 1986 the company's pretax earnings were $22 million on sales of over $400 million. With investors panting for specialty retailers, Geneen says the group will entertain reasonable bids for the company. He seems well on his way to keeping his promise to Cornstein.

North American Philips Corp.

■ Nine investors are suing this U.S. electronics giant and its Dutch parent NV Philips at a most inconvenient time—when the parent is tendering for the 42% of North American Philips it does not already own. Alan R. Kahn of the New York brokerage firm Kahn Brothers & Co. started suing in June, claiming that Philips consistently impeded its offspring's competitiveness. Kahn seeks divestiture of North American Philips, whose 1986 profits were $68.5 milion on sales of $4.5 billion, and compensation for damages allegedly suffered by its minority shareholders. When the parent offered $50 per share in August, Kahn filed a second suit complaining that Philips was buying off stockholders to kill the lawsuits. Philips says the legal actions lack merit. Arbitragers think Philips will have to pay at least $60 a share. After the bid, North American Philips's stock sold for $54.50.

American Family Corp.

■ Executives who want to learn how to do business in Japan should visit Columbus, Georgia, and ask John Amos. His insurance company, which has a middling business in the U.S., sells 85% of the cancer policies in Japan. American Family earned $100.7 million on sales of $1.4 billion in 1986—mostly from cancer coverage that Japanese corporations sell directly to employees and retirees. Amos's nephew and heir apparent, Dan, is so optimistic he added 100,000 shares to his holdings in July. The stock, which recently traded at $17.50 a share on the New York exchange, is likely to be listed in Tokyo by December. **— Brett Duval Fromson**